

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 DRC-01 /155 W

----- 106819

R 211440Z MAY 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 3380

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E.O.11652: N/A

TAGS: EFIN, BR

SUBJECT: INFLATION IN APRIL AGAIN HIGH BUT

GOVERNMENT EXPECTS IT TO TAPER OFF

1. SUMMARY: THE COST-OF-LIVING IN APRIL WENT UP BY 4.3 PERCENT, BRINGING CUMULATIVE RATE OF INFLATION FOR FIRST FOUR MONTHS TO 15.9 PERCENT. SPECIAL FACTORS ACCOUNTED FOR ABOUT HALF OF THIS INFLATION AND RATE OF INCREASE EXPECTED TO TAPER OFF STARTING IN MAY AS IMPACT OF SPECIAL FACTORS DIMINISH. INFLATION DURING 1974 NOW BEING UNOFFICIALLY ESTIMATED AT 30 PERCENT BUT THIS MAY BE DIFFICULT TO ACHIEVE. END SUMMARY.

2. THE GUANABARA COST-OF-LIVING INDEX, WHICH IS THE MEASURE NORMALLY USED TO GAUGE INFLATION IN BRAZIL, SHOWED IN APRIL, FOR THE FORTH CONSECUTIVE MONTH, ANOTHER SUBSTANTIAL JUMP. THE APRIL INCREASE WAS 4.3 PERCENT (OVER MARCH), BRINGING THE CUMULATIVE INFLATION FOR THE FIRST FOUR MONTHS OF THE YEAR TO 15.9 PERCENT. MAIN CONTRIBUTORS TO THE HIGHER COST-OF-LIVING

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IN THE JANUARY/APRIL PERIOD WERE: FOOD PRICES,UP

24.1 PERCENT: PERSONAL SERVICES (WHICH INCLUDES HIGHER GAS PRICES), UP 14.8 PERCENT: RENTS , UP 11.3 PERCENT: AND MEDICAL SERVICES, UP 11.1 PERCENT.

3. THE GUANABARA COST-OF-LIVING INDEX, WHICH IS GATHERED BY THE GETULIO VARGAS FOUNDATION, HAS BEEN REVISED AS OF APRIL AND THE INFLATION RATE FOR THE FIRST QUARTER HAS BEEN RE-CALCULATED ON THE BASIS OF THE NEW INDEX. THE REVISION REFLECTS THE RESULTS OF A PERIODIC SURVEY OF CONSUMER SPENDING HABITS. THESE PERIODIC ADJUSTMENTS ARE DESIGNED TO KEEP THE INDEX UP TO DATE. THE NEW INDEX MEASURES A BASKET OF GOODS WHICH INCLUDES ABOUT 40 ADDITIONAL ITEMS PREVIOUSLY EXCLUDED. BECAUSE SOME OF THESE NEW ITEMS HAD BEEN FORMERLY EXCLUDED FROM PRICE CONTROLS AND HENCE SOLD AT FREE ( HIGHER) MARKET PRICES, THE RE-CALCULATION OF INFLATION WITH NEW INDEX DURING FIRST QUARTER SHOW TOTAL COST-OF-LIVING INCREASE TO HAVE BEEN 11.6 PERCENT INSTEAD OF 9.1 PERCENT PREVIOUSLY REPORTED.

4. OF THE 15.9 PERCENT RISE IN THE COST-OF-LIVING THROUGH APRIL (ON BASIS OF NEW INDEX), THE GETULIO VARGAS FOUNDATION ESTIMATES THAT 8.4 PERCENT IS ATTRIBUTABLE TO " CORRECTIVE INFLATION" (I.E., THE REPRESSED INFLATION AND THE PRICE INCREASES NOT MEASURED BY THE OFFICIAL INDEX DURING 1973) AND TO EXCEPTIONAL FACTORS, SUCH AS DROUGHT WHICH AFFECTED FRUIT AND VEGETABLE PRICES. STARTING IN MAY THE IMPACT OF THESE SPECIAL FACTORS WILL CONSIDERABLY DIMINISH AND THE GOVERNMENT EXPECTS RATE OF INFLATION TO DECLINE.

5. COMMENT: THE COST-OF-LIVING RESULTS FOR THE FIRST FOUR MONTHS HAVE SURPASSED ALL OFFICIAL EXPECTATIONS AND HAVE NO DOUBT CAUSED A RE-ASSESSMENT OF EARLIER FORECASTS. FINANCE MINISTER SIMONSEN HAD PRIVATELY SAID THAT HE EXPECTED INFLATION THIS YEAR TO BE AROUND 20-25 PERCENT, WHILE PLANNING MINISTER VELLOSO HAD PUBLICLY STATED THAT IT MIGHT BE AS LOW AS 18-20 PERCENT. GIVEN THE 15.9 PERCENT INFLATION THROUGH APRIL, NEITHER OF THESE FORECASTS NOW SEEM REALISTIC. HIGH LEVEL OFFICIAL OF GETULIO VARGAS FOUNDATION TOLD LIMITED OFFICIAL USE

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TREASURY REPRESENTATIVE DURING VISIT TO RIO THAT INFLATION THIS YEAR WILL BE ABOUT 30 PERCENT. HOWEVER, GIVEN RESULTS FOR FIRST FOUR MONTHS, THE WORLD-WIDE INFLATIONARY FORCES AND INTERNALLY GENERATED PRESSURES, EVEN THIS 30 PERCENT TARGET MAY BE DIFFICULT TO ACHIEVE.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
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**Concepts:** COST OF LIVING, INFLATION, RETAIL PRICE INDEXES  
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**Copy:** SINGLE  
**Draft Date:** 21 MAY 1974  
**Decaption Date:** 01 JAN 1960  
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**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GarlanWA  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
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**TAGS:** EFIN, BR  
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